

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 IO-13 ISO-00 SSO-00 INRE-00 ICAE-00
NSCE-00 AID-05 CEA-01 CIAE-00 COME-00 EA-10
FRB-03 INR-10 NEA-11 NSAE-00 OPIC-03 SP-02
TRSE-00 LAB-04 SIL-01 AGRE-00 OMB-01 SS-15 STR-07
L-03 XMB-02 /112 W
-----079506 221753Z /47

O R 221652Z MAY 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC IMMEDIATE 1880
INFO ALL OECD CAPITALS
AMEMBASSY BRUSSELS
USMISSION GENEVA
USMISSION USUN

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FOR EB/ICD

E.O. 11652: N/A
TAGS: ETRD, OECD
SUBJECT: COMMON FUND (CF): MEETING OF OECD AD HOC
GROUP MAY 18-19

1. SUMMARY: AD HOC GROUP ON THE COMMON FUND PURSUED
ITS DISCUSSIONS OF AN APPROPRIATE VOTING AND MANAGE-
MENT STRUCTURE FOR THE CF, WITH SPECIAL ATTENTION TO
ISSUE OF QUALIFIED VERSUS DISTRIBUTED MAJORITIES.
DEBATE ON "OTHER MEASURES" CENTERED ON US AND
AUSTRALIAN PAPERS ADVOCATING, RESPECTIVELY, NON-
FINANCIAL AND FINANCIALLY OPEN-ENDED ROLES FOR CF
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IN THIS AREA, PLUS SWEDISH IDEA FOR A TECHNICAL
ASSISTANCE FACILITY CONNECTED TO UNDP. GROUP ALSO
BRIEFLY DISCUSSED COMMERCIAL BORROWING ASPECT OF
CF CAPITAL STRUCTURE. TENOR OF DISCUSSION ON THE
WHOLE WAS RELAXED, BUSINESS-LIKE AND UNPOLITICIZED.
ON OTHER MEASURES, MOST DELEGATIONS -- INCLUDING
THE NORDICS -- VIEWED U.S. CONTRIBUTION

AS CONSTRUCTIVE, WHILE CORRIDOR TALK INDICATED A
NUMBER OF DELEGATIONS NOW SEE POSSIBILITY OF GROWING
CONVERGENCE OF VIEWS. NEXT MEETING IS SCHEDULED
FOR JUNE 2L AND 22, WITH HLGC TO MEET JUNE 23.
END SUMMARY.

2. MANAGEMENT AND VOTING: GROUP DISCUSSED ISSUED
OF WEIGHTED VOTING IN A COMMON FUND ON BASIS OF NEW
SECRETARIAT CALCULATIONS OF OECD VOTING POWER UNDER
VARIOUS ASSUMPTIONS. SEVERAL DELS INCLUDING U.S.
REMARKED ON ADVERSE EFFECTS FOR OECD
VOTING POWER OF ALLOTING A MINIMUM NUMBER OF "BASIC
VOTES TO EACH MEMBER OF CF AND ON SMALL SHARE (36)
OF VOTES OECD WOULD HAVE IF CF BASED ON ONLY THREE
MOST LIKELY ICA'S (TIN, COCOA, RUBBER). THIS LED
TO CALL BY FRANCE AND FRG, WITH SOME SUPPORT FROM
UK, FOR USE OF DISTRIBUTED MAJORITIES (I.E. SYSTEM
WHERE DECISIONS REQUIRE MAJORITY OF BOTH PRODUCERS
AND CONSUMERS), SINCE OTHERWISE EVEN REQUIREMENT
FOR 2/3 MAJORITY WOULD FALL SHORT OF GIVING GROUP B
A BLOCKING ONE-THIRD VOTE (ASSUMING NORMAL RATE
OF DEFECTIONS). THESE DELS ARGUED A
DISTRIBUTED MAJORITY VOTING SYSTEM (A) WOULD BE MUCH
EASIER TO NEGOTIATE THAN THE 4/5 MAJORITY WHICH MIGHT
BE NEEDED TO PROTECT CORE GROUP B INTERESTS; (B) WAS
INHERENTLY EQUITABLE SINCE BOTH SIDES HAD EQUAL VOICE;
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AND (C) WAS SANCTIONED BY USAGE IN ICA'S.

3. U.S. DEL, HOWEVER, SUGGESTED DISTRIBUTED MAJORITY
SYSTEM COULD BE CUMBERSOME, ESPECIALLY AT THE
GENERAL ASSEMBLY LEVEL, SINCE VOTERS COULD BE BOTH
PRODUCERS AND CONSUMERS DEPENDING ON THE COMMODITY
INVOLVED. HE ALSO STRESSED FLEXIBILITY OF QUALIFIED
MAJORITY SYSTEM, WHERE DIFFERENT MAJORITIES COULD
BE STIPULATED FOR DIFFERENT KINDS OF DECISIONS. CON-
SENSUS OF GROUP WAS TO KEEP LOOKING AT BOTH OPTIONS.
IN THIS CONNECTION UK URGED GROUP TO CONSIDER VOTING
SCHEMES BASED ON TRADE IN LARGER NUMBER OF COMMODITIES

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(10 OR 18), SINCE G-77 MIGHT WELL PROPOSE SOMETHING
ALONG THOSE LINES, BUT MOST DELS THOUGHT CF BASED
ON 7 ICAS, AS ANALYZED IN SECRETARIAT PAPER, WAS
ALREADY AT LIMIT OF REALISM. BRIEF REVIEW OF KINDS
OF DECISIONS THAT CF WOULD HAVE TO TAKE LED TO NO
NEW CONCLUSIONS.

4. OTHER MEASURES: DISCUSSION WAS BASED ON PAPERS
SUBMITTED BY AUSTRALIA AND U.S. AUSTRALIAN PAPER,
WHICH ASSUMES FINANCIAL ROLE FOR CF ON OTHER MEASURES,
SUGGESTS THIS ROLE BE "LIMITED" TO THOSE MEASURES
WHICH (A) ARE DIRECTED TOWARD MARKET AND PRICE
STABILIZATION (INCLUDING NATIONAL STOCKS AND EXPORT
QUOTAS); (B) RESULT FROM PRODUCER/CONSUMER DECISIONS;
AND (C) DO NOT DUPLICATE EXISTING ACTIVITIES OF
INTERNATIONAL INSTITUTIONS (BUT NOT EXCLUDING ANY
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MEASURE A PRIORI). THOUGH THIS APPROACH RECEIVED
FAVORABLE COMMENT FROM NORWEGIANS, DUTCH, DANES,
AND BELGIANS, IT WAS HEAVILY CRITICIZED BY FRANCE,
UK, FRG, AND U.S. AS OPENING DOOR TO UNLIMITED
FINANCIAL DEMANDS. EVEN FINNS THOUGHT AUSTRALIAN
CRITERIA WERE TOO VAGUE. FRENCH WARNED AGAINST
MAKING FINANCIAL COMMITMENTS THAT COULD NOT BE

KEPT. BELGIAN DEL ARGUED IT WAS BETTER TO LIMIT SCOPE OF "SECOND WINDOW" VIA CEILING ON FUNDING (FINANCED BY OBLIGATORY CONTRIBUTIONS) THAN BY TRYING TO CIRCUMSCRIBE ITS ROLE. UK RESPONDED THAT, WHILE AUSTRALIAN PROPOSAL WAS PRESENTED AS A LIMITING DEVICE, NATURE OF AUSTRALIAN CRITERIA MADE PROPOSAL FINANCIALLY OPEN ENDED. UK ALSO CRITICIZED DEPARTURE FROM NOTION OF VOLUNTARY CONTRIBUTIONS AND WARNED THAT OPEN-ENDED CRITERIA WOULD JUST LEAD TO RAPID AND FREQUENT CALLS FOR OBLIGATORY REPLENISHMENT. U.S. OBSERVED THAT AUSTRALIAN PROPOSAL IN EFFECT SUGGESTED CF FINANCING OF SUPPLY RESTRICTIONS, WHICH EVEN G-77 HAD NOT ADVOCATED.

5. U.S. PAPER, WHICH MAKES DETAILED CASE THAT IBRD ACTIVITY IN "OTHER MEASURES" AREA IS ALREADY QUITE EXTENSIVE, SUGGESTS CF COULD HAVE ROLE BY (A) IDENTIFYING PROSPECTS FOR INCREASED IFI ACTIVITY ON OTHER MEASURES; (B) SUPPORTING A CONSULTATIVE GROUP ON RESEARCH ON CERTAIN IPC COMMODITIES; AND (C) FURTHERING COOPERATION AMONG ICAS AND IFIS AND HELPING MOBILIZE CAPITAL FROM OTHER SOURCES. OTHER DELS' COMMENTS WERE LARGELY FAVORABLE, ALTHOUGH NORDICS, DUTCH, AND BELGIANS PREDICTABLY THOUGHT U.S. CONCEPT WAS POLITICALLY INADEQUATE. IN RESPONSE TO QUESTIONS, U.S. LIMITED OFFICIAL USE

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MADE IT CLEAR THAT CF ROLES OUTLINED IN PAPER DID NOT INCLUDE A FINANCIAL ONE. U.S. ALSO ARGUED THAT APPROACH TO OTHER MEASURES SHOULD BE DEFENSIBLE ON ITS MERITS RATHER THAN MERELY ON POLITICAL GROUNDS.

6. SWEDES PRESENTED A CONCEPT OF "SECOND WINDOW" WHICH MANY DELS FOUND INTERESTING. WHILE CAREFULLY INSISTING THAT WINDOW BE LINKED INSTITUTIONALLY TO CF AND INVOLVE NEW FINANCIAL RESOURCES (NOT NECESSARILY ALL VOLUNTARY), SWEDES SUGGESTED LIMITING SCOPE OF SECOND WINDOW ACTIVITY TO FINANCING PROJECT PREPARATION AND FEASIBILITY STUDIES FOR "OTHER MEASURES.". SUCH A PROGRAM OF TECHNICAL ASSISTANCE WOULD BE ADMINISTERED BY UNDP AND PERHAPS OTHER SPECIALIZED AGENCIES AND FINANCED BY SPECIAL FUND IN THIS FRAMEWORK. THUS "SECOND WINDOW" WOULD OPERATE ESSENTIALLY AS COOPERATIVE AGREEMENT BETWEEN THE CF, UNDP, AND PERHAPS THE IBRD. SWEDISH DEL SAID THIS IDEA HAD BEEN DISCUSSED WITH UNDP OFFICIALS, WHO THOUGHT IT WAS FEASIBLE.

7. CAPITAL STRUCTURE: GROUP HAD VERY BRIEF DISCUSS-

ION OF ISSUES RAISED BY UNCTAD SECRETARIAT'S MEETING

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WITH BANKERS. FRG REPORTED THAT UNCTAD SECRETARIAT SUMMARY OF MEETING WAS AT VARIANCE WITH IMPRESSIONS OF THE GERMAN BANKER WHO ATTENDED. U.S. DEL INDICATED THAT ITS OWN SUBSEQUENT DISCUSSIONS WITH NEW YORK BANKERS SHOWED THAT CAPITAL STRUCTURE OF GROUP B PROPOSAL WAS VIABLE, BUT THAT MANAGEMENT AND VOTING STRUCTURE WOULD PLAY A MAJOR ROLE IN DETERMINING CREDIT WORTHINESS OF CF. U.S. DEL URGED FURTHER STUDY OF IMPLICATIONS OF THIS POINT. NORWEGIANS CIRCULATED PAPER ON "ELEMENTS IN THE FINANCIAL STRUCTURE OF A COMPOSITE CF," WHICH WILL BE DISCUSSED AT NEXT MEETING.

8. FUTURE WORK AND NEXT MEETING: ON BASIS OF CHAIRMAN'S SUMMING UP, GROUP AGREED TO CONTINUE DISCUSSIONS OF MANAGEMENT AND VOTING
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TO DEVELOP OUTLINE OF A BASIC SUITABLE DECISION-MAKING
STRUCTURE FOR GROUP B PROPOSAL), OTHER
MEASURES, AND CAPITAL STRUCTURE. NEXT MEETING IS
SCHEDULED FOR JUNE 21 AND 22, FOLLOWED BY A MEETING
OF THE HIGH LEVEL GROUP ON JUNE 23.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FUND ALLOTMENT, LESS DEVELOPED COUNTRIES, COMMITTEE MEETINGS, TRADE AGREEMENTS, MEETING REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 22 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978PARIS16196
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780215-0876
Format: TEL
From: PARIS USOECD
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780533/aaaabbpy.tel
Line Count: 289
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 9cb58a99-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2615948
Secure: OPEN
Status: NATIVE
Subject: COMMON FUND (CF): MEETING OF OECD AD HOC GROUP MAY 18-19
TAGS: ETRD, OECD
To: STATE USEEC
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/9cb58a99-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014